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Minnesota Housing Report

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REAL ESTATE REPORT SERIES

MINNESOTA HOUSING REPORT

3rd QUARTER, 1985

**Minnesota Real Estate
Research Center**

**Office of the
Minnesota Chair in Real Estate**



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MINNESOTA HOUSING REPORT

3rd QUARTER, 1985

Prepared by: Minnesota Real Estate Center
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The Minnesota Housing Report is compiled on the basis of monthly housing reports furnished to the Minnesota Real Estate Research Center at St. Cloud State University. Funding to permit preparation of the Minnesota Housing Report is provided by the Educational Foundation of the Minnesota Association of Realtors and St. Cloud State University.

The reports are supplied by fourteen cooperating local real estate boards representing 71.1 percent of Minnesota's population. The boards represent various areas of the state and thus provide a picture of housing diversity between regions as well as housing trends within regions.

Information presented for the state or a particular region is based on actual listings of homes for sale, financing, size and sales of single family residential property. The figures presented are not adjusted for seasonal variation in real estate housing activity.

Due to additional participating boards, third quarter report data is not directly comparable to information presented in the second quarter report. All prior data has been adjusted to reflect additional information provided. Reference to prior quarters contained in the third quarter report is directly comparable to third quarter data.



Statewide Activity

Single Family Homes

The distribution of single family homes sold by bedroom category, tends to remain stable quarter to quarter. During the third quarter, homes with three bedrooms accounted for 47.2 percent of the market while four or more bedroom homes represented 23.6 percent of the existing home market. The remainder of existing home sales are one or two bedroom properties and represent 29.1 percent of total sales.

The median price of "two or fewer bedroom" properties was \$59,435, \$194 more than during the second quarter and up \$643 over first quarter's median price. The median price of three bedroom homes has increased each quarter and is up 4.5 percent for the year to date. Respectively, the median price for three bedroom homes during the first three quarters of 1985 has been \$72,144, \$73,500 and \$75,377. Similarly "4 or more bedroom" properties are up 2.1 percent to \$96,534 at third quarters end.

The statewide median price across all home sizes and regions of the state was \$74,352, up 1.98 percent from 2nd quarter's \$72,908 and 2.79 percent from the first quarter's median price of \$72,336.

Normal seasonal decline in sales activity begins to occur during the fourth quarter of the year. With declining interest rates this seasonal decline should be moderated. Quarter to quarter changes in unit sales are as follows:

Jan-March	6791 Homes sold	
April-June	9362 Homes sold	up 37.9%
July-September	8632 Homes sold	down 7.8%

Table 1

Quarterly Median Price: \$74,352 Boards Reporting: 14

Third Quarter 1985
Existing Home Sales

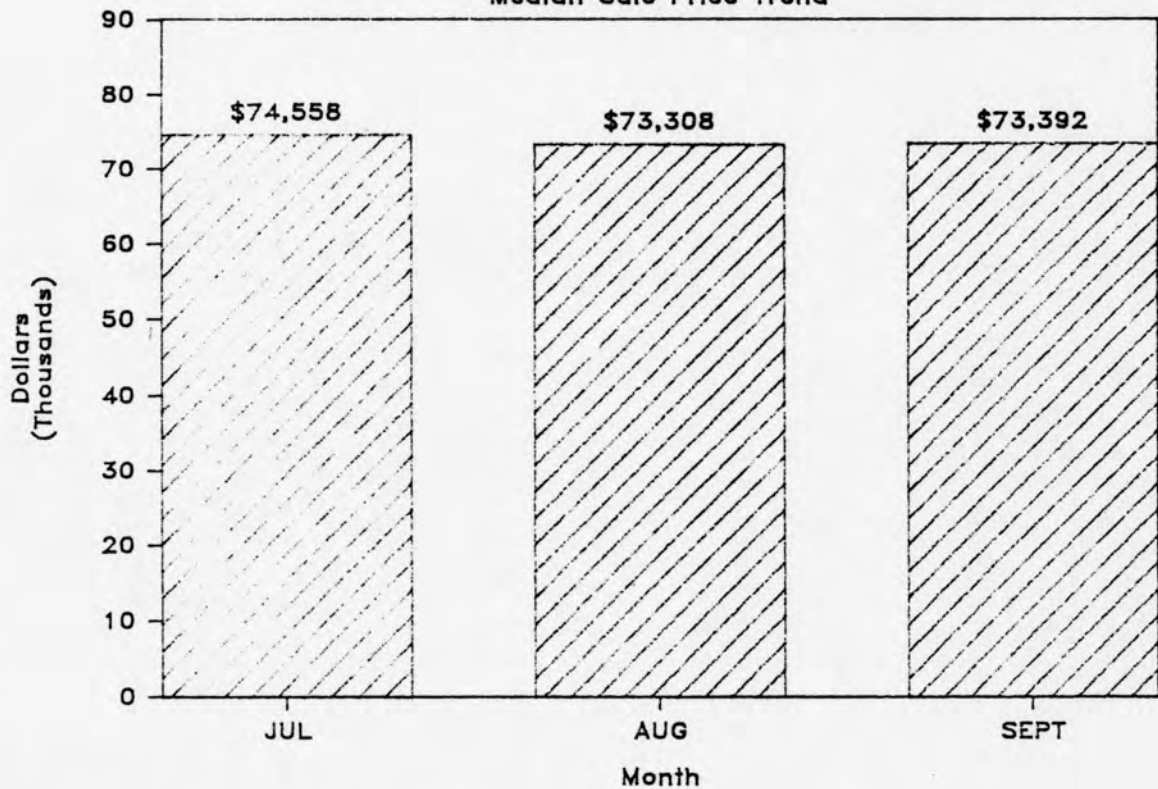
Price Class	Units Sold	%
\$0 - \$19,999	154	1.8%
\$20,000 - \$29,999	177	2.1%
\$30,000 - \$39,999	330	4.0%
\$40,000 - \$49,999	576	6.9%
\$50,000 - \$49,999	1004	12.1%
\$60,000 - \$69,999	1414	17.0%
\$70,000 - \$79,999	1389	16.7%
\$80,000 - \$89,999	993	11.9%
\$90,000 - \$99,999	573	6.9%
\$100,000 - \$119,999	649	7.8%
\$120,000 - \$139,999	375	4.5%
\$140,000 - \$159,999	223	2.7%
\$160,000 - \$179,999	160	1.9%
\$180,000 - \$199,999	75	0.9%
\$200,000 - \$249,999	121	1.5%
\$250,000 -and over	<u>118</u>	<u>1.4%</u>
	8632*	100.0%**

*The total includes 140 sales from Mankato, 67 sales from Alexandria, and 144 sales from St. Cloud (July/August) which were not assigned to their price class intervals.

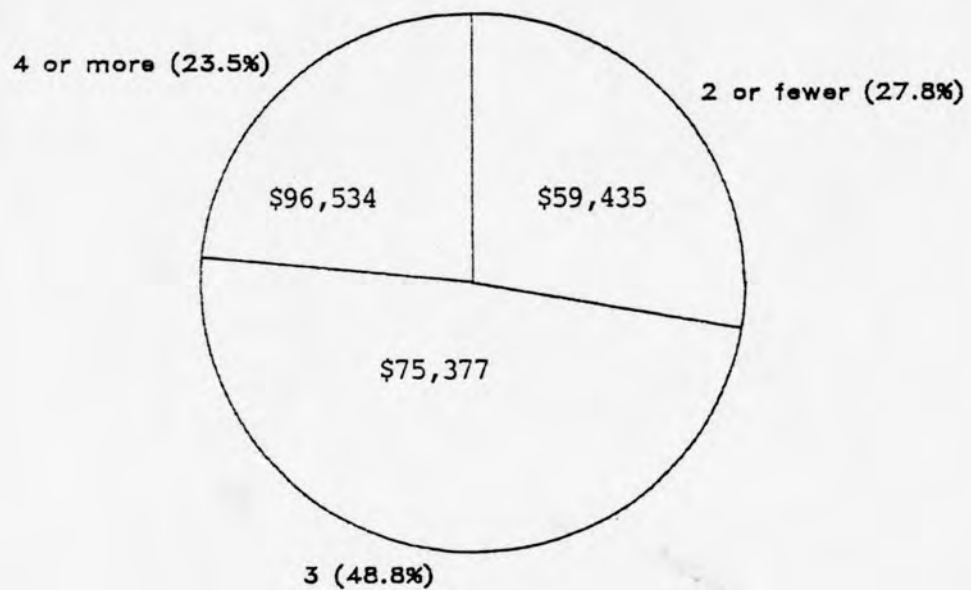
**Interval percentages are calculated from the total of only the sales which were reported by price class interval

Statewide Activity

Median Sale Price Trend



Median Price by Home Size (# bedrooms)



Time on the Market

Median time on the market for existing homes sold during the quarter was 66.3 days, up 8.9 days from second quarter performance and down 4.4 days from first quarter of the year. As a guide, normal sale time is expected to be 90 days.

When the median for all homes sold is less than 90 days it is indicative of a strong housing market. During recessions the median time on market lengthens and exceeds the 90 day benchmark. Time on market in the five regions of the state represented in this report ranged from a low of 56.3 days to a high of 115.5 days.

For an individual home, when time on market exceeds 90 days, the listing agent should begin to question if the home is overpriced, under financed or both. Regions with T.O.M. over 90 days should experience declining prices while relative price strength is present with T.O.M. of less than 90 days.

Of residential properties sold, 47.3 percent sold within 60 days or less of listing. Last quarter homes sold in 60 days or less represented 52.0 percent of all transactions. In the first quarter the proportion was 46.3 percent.

Homes sold after more than 120 days on the market were 31.5 percent of sales in the first quarter, 25.5 percent second quarter and 27.5 percent during the third quarter.

Unsold Housing Inventory Index

Residential housing activity is a highly seasonal activity with 70 percent of all sales completed between the months of April and October. In other words, even though sales activity declines November through March, 30 percent of each year's income may be earned in this time period.

The "unsold inventory index" measures the number of months it would take for all currently listed residential units to sell at the average level of sales occurring during the quarter.

Statewide the index for the third quarter is 7.5 months supply of unsold homes, down from 7.7 months in the second quarter and 10.2 months during the first quarter of 1985.

The lower the unsold inventory index the stronger the housing market. Statewide the strength of the housing market varies widely ranging from a low of 7.0 months to 20.6 months supply of unsold homes. Markets with "homes for sale" in excess of a ten months supply are candidates for general price declines. Many bargain purchases are available in these areas for those seeking retirement homes, vacation retreats or willing to commute to work.

Financing Characteristics

The strength of a housing market is also reflected in the type of financing used to purchase residential property. High levels of contracts-for-deed and assumption of pre existing mortgage loans is associated with weaker housing markets. Strong markets rely primarily on conventional and FHA insured mortgage loans. Changes quarter to quarter in the type of financing used indicates a weaker, stable or stronger housing economy.

The following market shares of residential financing and percentage changes from the first quarter, reveal, statewide, a strengthening housing market. These changes are primarily a result of lower interest rates as opposed to economic growth.

	<u>Third Quarter Market Share</u>	<u>Change- Year to Date</u>
Contracts for Deed	12.2%	Down 4.7%
Assumptions	13.3%	Down 14.7%
Conventional Mortgages	20.6%	Unchanged
FHA Insured Loans	31.5%	Up 14.1%
Veterans Adm. Guaranteed	8.1%	Unchanged
Cash Purchases	6.4%	Up 14.3%
Miscellaneous	7.9%	Down 17.7%

Affordability Index

Current lending requirements for the Federal National Mortgage Association state that a family with a 30 year fixed interest rate mortgage making a 20 percent down payment spend no more than 25 percent of gross income for housing payments (principal and interest). Using a statewide weighted average median family income for the reporting regions (\$28,708), a median priced existing home (74,352) and the average interest rate prevailing during the third quarter (11.75%) of 1985, a measure of affordability may be calculated.

During the third quarter a median income family had 99.6 percent of the income necessary to qualify for the purchase of a median priced existing home. This compares with an affordability index of 91.8 during the first quarter and 94.4 in the second quarter.

The increases in affordability may be attributed to generally declining interest rates. With continued decreases in long term interest rates forecast, housing resales are expected to be strong well into summer 1986.

It is important to recognize that given the availability of housing at all price categories, virtually anyone with good credit and steady employment qualifies for the purchase of a home.

Region 1 - Range

For Northeastern Minnesota third quarter existing home sales increased 11.5 percent over the second quarter of 1985. The majority of this change was due to increased sales of three bedroom properties in the \$20 - 30,000 and \$50 - 70,000 price categories. Three bedroom residential sales in these price categories increased 145 and 35 percent respectively. Sales of four bedroom homes declined while sales of two bedroom home increased modestly. Month to month changes in unit sales are as follows:

February,	down	28.57% over January
March,	down	9.38% over February
April,	up	115.63% over March
May,	up	44.93% over April
June,	up	9.30% over May
July,	up	5.50% over June
August,	down	7.83% over July
September,	down	16.04% over August

The median sales price for existing houses during the quarter was \$36,475, down 6.4 percent from the second quarter median price of \$38,693. Year to date third quarter median prices are up ten percent over first quarter 1985.

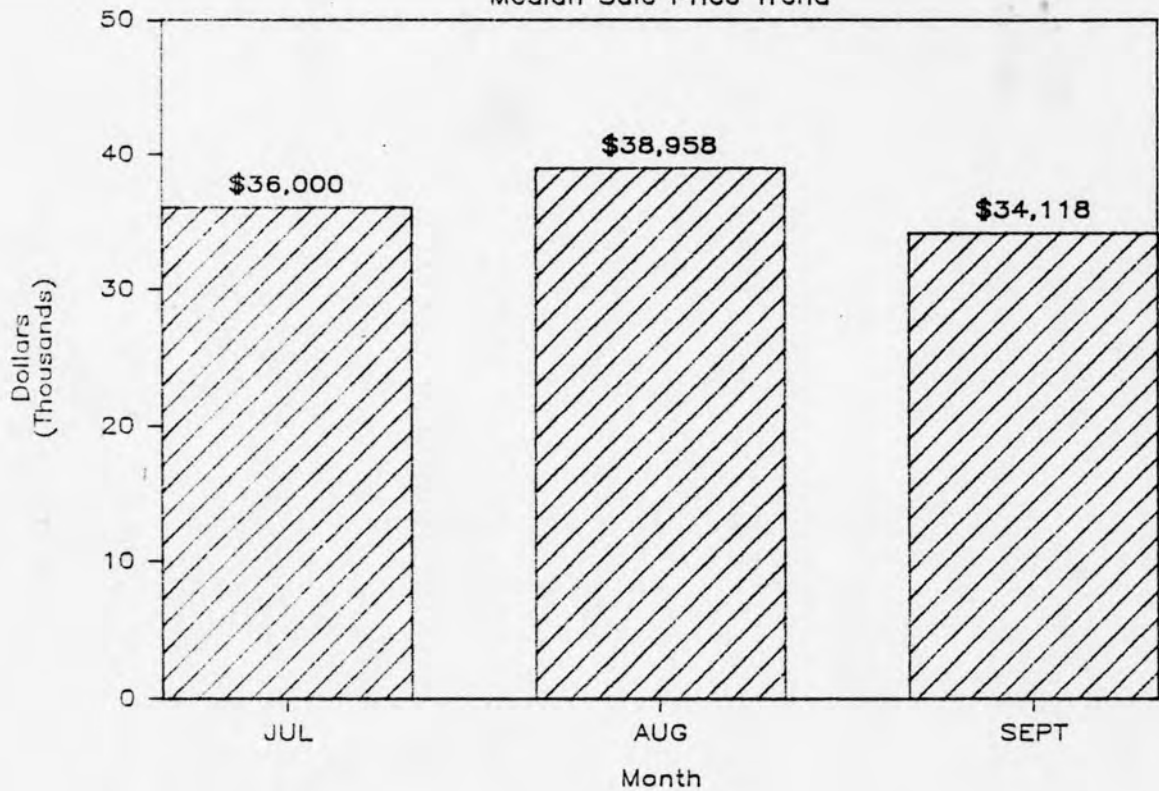
Median time on the market declined to 115.5 days from 126.1 days recorded during the second quarter. Homes "on the market" for over 120 days represented 47 percent of total sales versus 64 and 60 percent during the second and first quarters of the year.

With increased housing activity on the range "old listings" are being sold or withdrawn from the market. The combined effect is not only to reduce the "time on market" but reduce the unsold housing inventory to 20.6 months supply of homes from second quarter's 21.5 months supply.

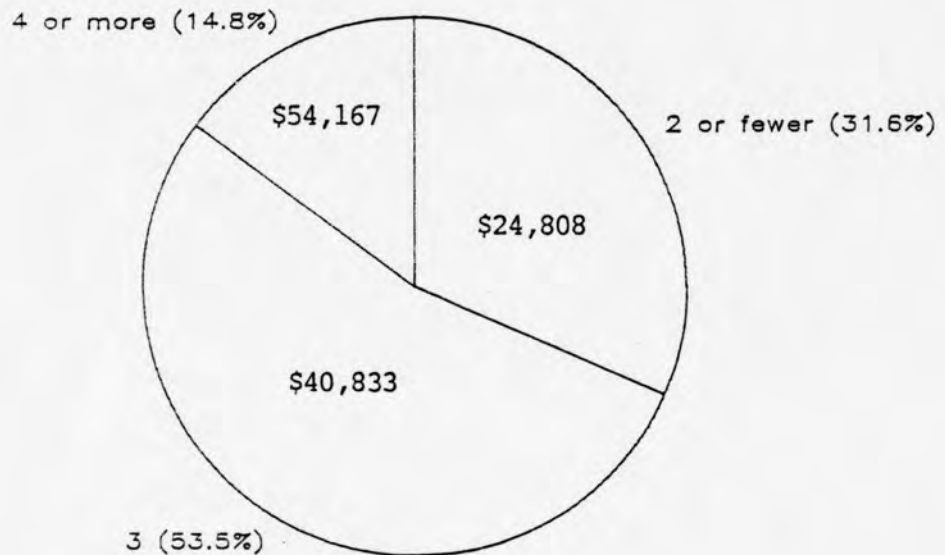
As interest rates declined so has the use of contracts for deeds. "Contracts" accounted for 27.9% of total financing compared to 38.3% during the second quarter. Cash continues to talk loudly on the range. Third quarter purchases for cash were 16.2% of total sales up 45.9 percent from the second quarter. FHA & VA provide limited financing and represents 4, 15 and 15 percent of mortgage loans during the first through third quarters of this year. Conventional lending declined from 19.5 percent of the loan market to 12.7 percent in the third quarter.

A meaningful determination of the affordability index cannot be made at this time.

Range Region Median Sale Price Trend



Median Price by Home Size (# bedrooms)



Region 2 - Lakes

PHENOMENAL is the only way to describe the Lakes Region third quarter increase in sales. Second quarter sales were up 72 percent over the first quarter and third quarter sales increased 63 percent over the second quarter. Two bedroom sales (recreational property) jumped 91 percent, three bedroom home sales were up 41 percent and sales of four or more bedroom properties increased 55 percent during the third quarter.

The median sales price of homes sold in the third quarter was \$45,351 up 5.7 percent over the first quarter of this year. Two bedroom homes continue to dominate this market and represent 45.7 percent of total sales in the third quarter, 39 percent in the second quarter and 41 percent in the first quarter. This characteristic is a function of strong seasonal recreational-retirement demand.

The median time on market decreased modestly from 121.3 days to 113.5 days. Listings over 120 days old represented 48 percent of sales during the third quarter.

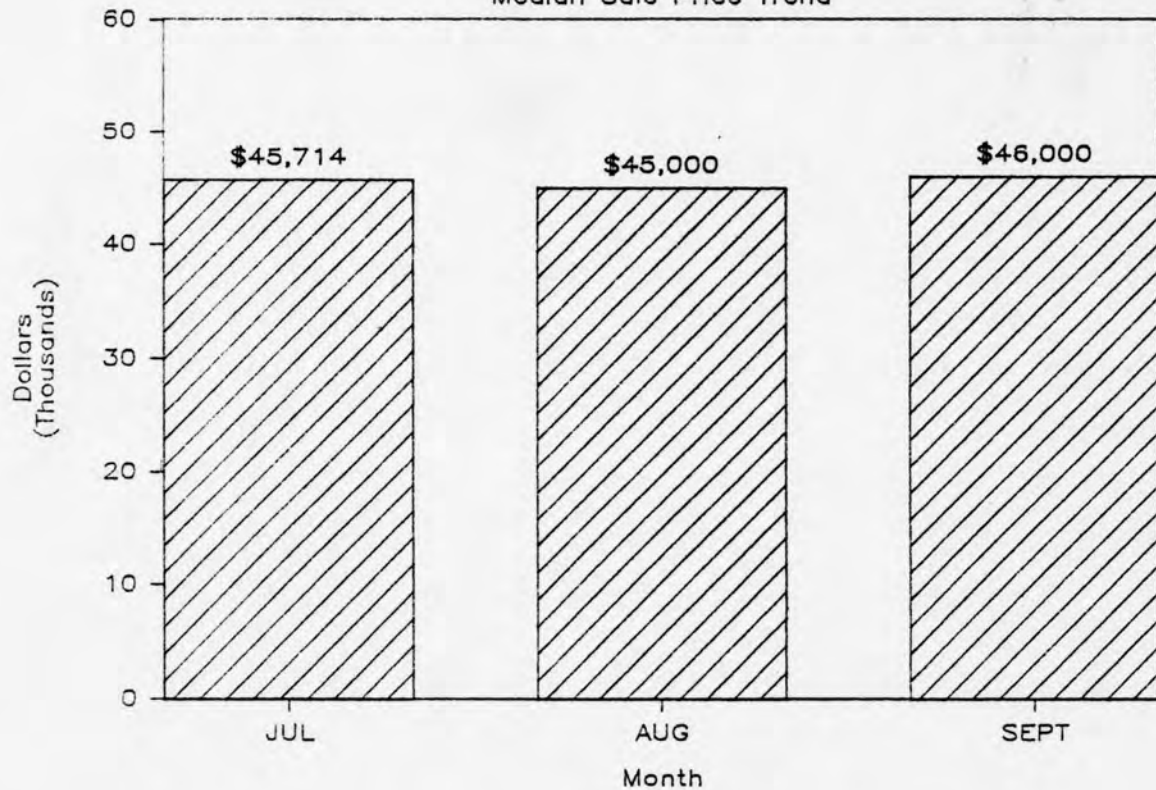
The unsold housing inventory index dropped significantly from 26.3 to 13.9 months supply of unsold homes. First quarter of this year the index was 36.6 months supply of unsold homes. With continued strength in demand, relative to supply, time on market should decline in 1986.

Seller provided contracts for deed represent the largest single source of financing for home buyers. Contracts for deed accounted for 44.3 percent of financing during the third quarter and has provided over 40 percent of all financing for the third quarter in a row. Cash purchases represent the second most common means of financing. Cash purchases dropped to 14.3 percent of total sales from 16.3 percent in the second quarter. FHA and VA provide financing for approximately 12 percent of transactions and conventional mortgage loans represent 11 percent of the market.

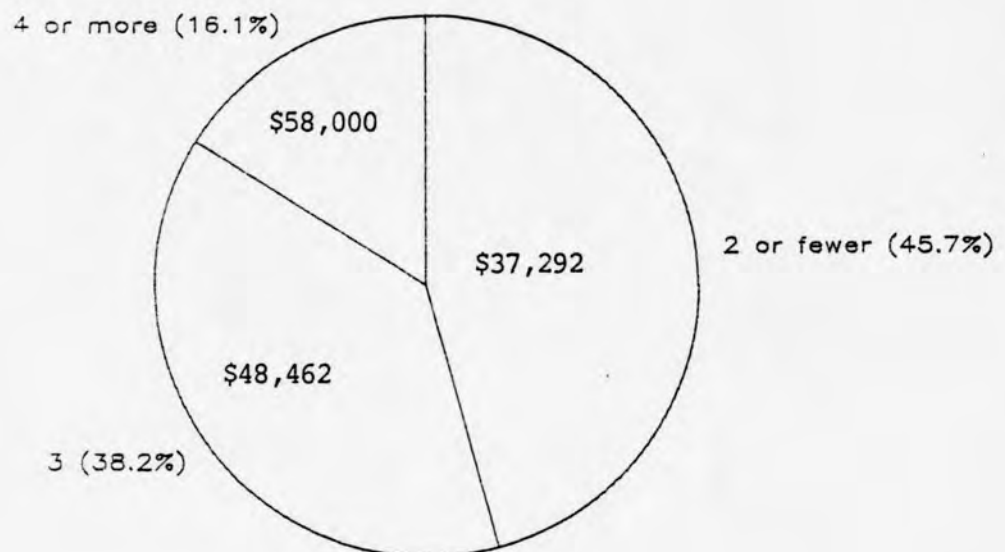
Considering the large number of contracts for deed with interest rates below the market rate of interest, affordability is greater than presented here. The housing affordability index based on a 11.75 percent loan is 104.4, up from 98.1 during the second quarter. The increase may be attributed to generally lower interest rates.

Lakes Region

Median Sale Price Trend



Median Price by Home Size (# bedrooms)



Region 3 - Twin City & Suburban

The Twin City and Suburban region continues to be Minnesota's most active and expensive residential housing market. Although single family residential sales during the third quarter declined 10.6 percent, the pace of sales is still 19.8 percent greater than during the first three months of this year. Month to month: July sales were up 18.2 percent over June, August declined 30.7 percent from July and September closings were 9.7 percent less than August.

Third quarter median sales prices increased 1.3 percent to \$76,190 from second quarter's \$75,228. Year to date, prices are up 2.6 percent over the first three months of the year and up 3.1 percent over January's median price of \$73,904.

Time on the market during the third quarter was 57.6 days up from 53.2 days in the second quarter. Homes sold within 60 days of listing accounted for 52.4 percent of total sales. Homes listed for more than 120 days represent 22 percent of third quarter's total closings.

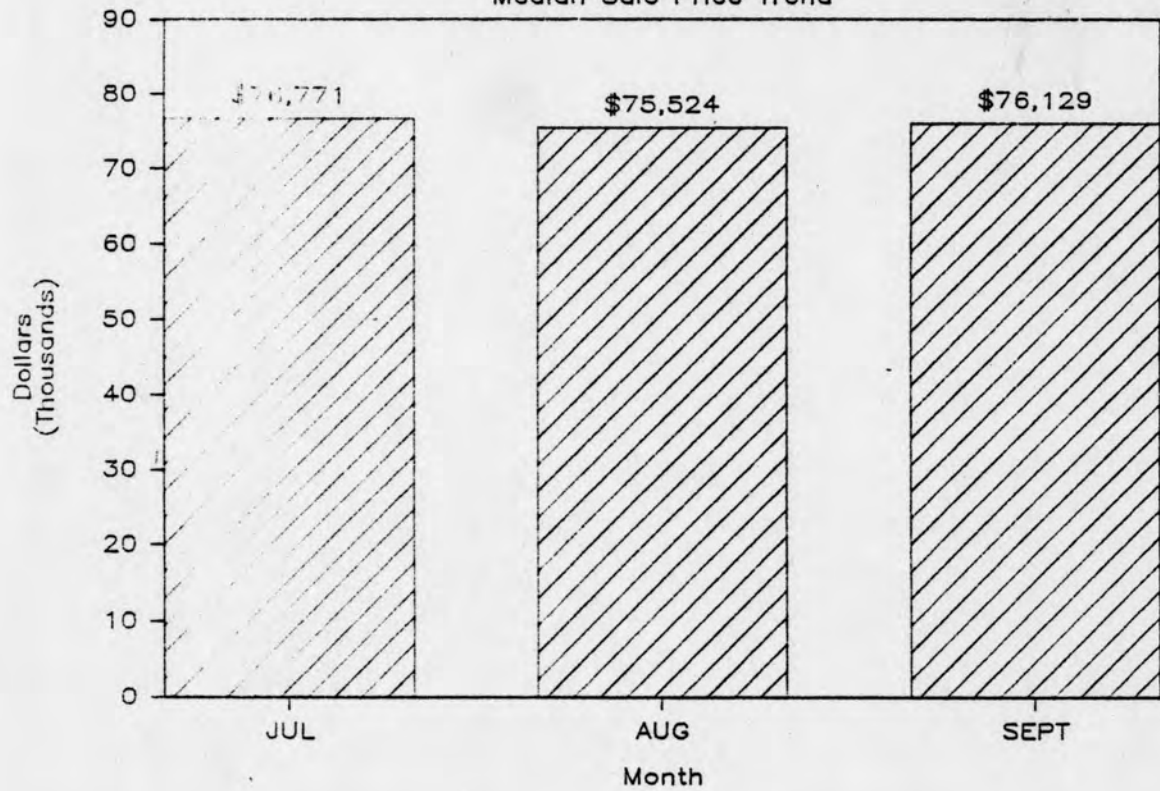
The unsold housing inventory index stands at 6.97 months supply of homes for sale. The supply of housing, relative to demand, has remained stable for the last six months. A stable and low housing inventory index reflects a continuing strong housing market.

Of units reported sold, 35.1% of buyers obtained FHA mortgage insurance an increase in market share of 17 percent; 19 percent of buyers obtained conventional mortgage loans and 14.3 percent assumed pre-existing loans. Contracts for deed accounted for less than 10 percent of financing activity. Third quarter cash sales represent 5.3 percent of total sales.

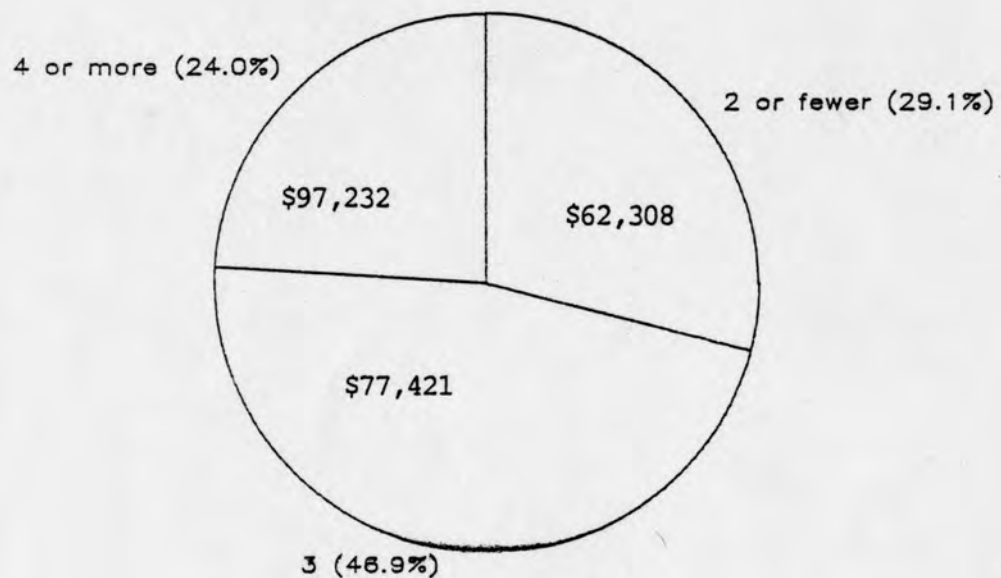
Declining interest rates continued to make housing more affordable. The affordability index increased for the third time and is 105.1, up 6.3 percent over the second quarter and up 8.6 percent over the first quarter of this year. In other words the median income family has 105.1 percent of the income necessary to qualify for a conventional, 80% LTV, mortgage loan on a median priced home.

Twin Cities & Suburban Region

Median Sale Price Trend



Median Price by Home Size (# bedrooms)



Region 4 - Southeastern

Data and changes discussed this quarter include, for the first time, information on single family residential sales occurring in Freeborn, Blue Earth, Nicollet and LeSueur Counties. All data for prior quarters has been adjusted to include our expanded information base.

For the Southeastern region of the state, third quarter sales of single family detached homes dropped 13.6 percent but remained 31.4 percent above first quarter 1985. Median price for existing homes sold declined to \$60,063 from \$64,539 in the second quarter. First quarter median sales price was \$60,706.

Median time on the market was 69.6 days, up 10.3% from 63.1 days for the second quarter and down 23.9 percent from first quarter's 84 days. Homes sold which have been on the market over 120 days increased to 27.1 percent of all homes sold from 17.2 percent in the second quarter. Residential property sold within 30 days of listing have represented 24.2, 25.3 and 27.3 percent of sales in the first through third quarters respectively.

Southeastern Minnesota relies heavily on conventional mortgage loans to provide financing for home purchases. From the first through third quarter, conventional loans have represented 38.6, 45.9 and 47.3 percent of all financing. Contracts for deed and assumption of pre-existing loans have supplied 30.6, 26.1 and 23.3 percent of financing in the respective quarters.

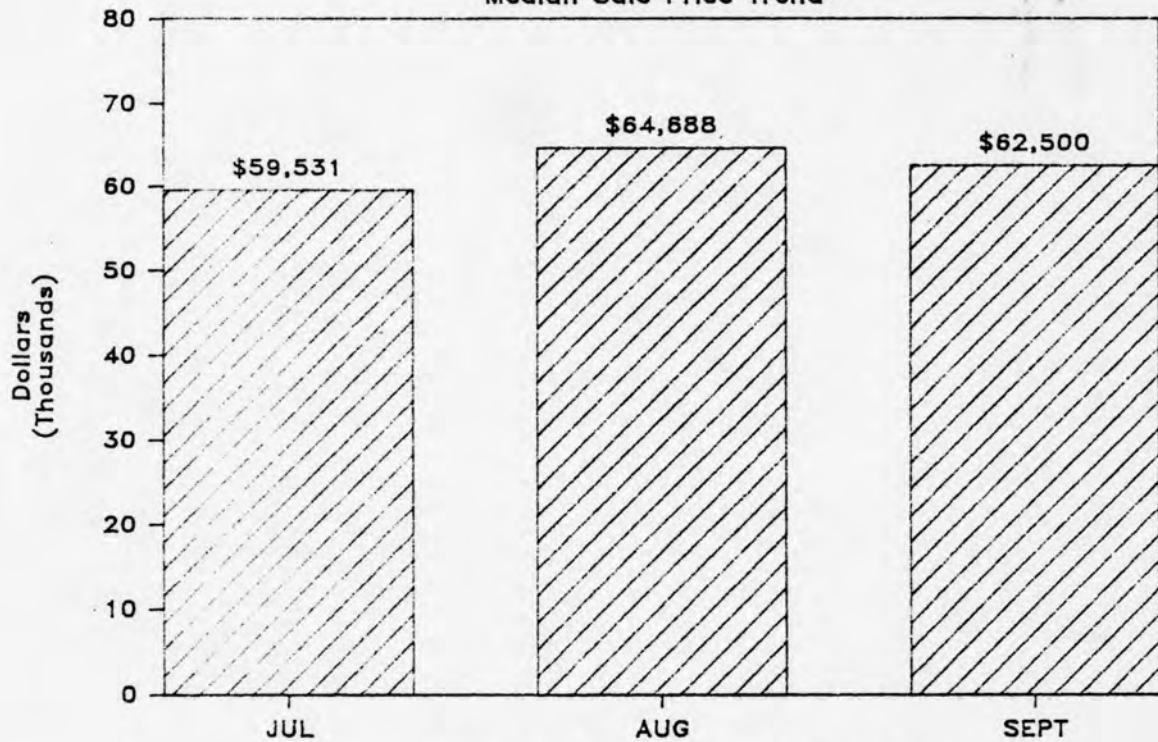
FHA mortgage insurance broke the 10 percent barrier, hitting 11.1 percent during the third quarter. Cash purchases have increased market share each quarter, moving from 5.9 to 8.4 and finally 10.1 percent of all purchases.

The unsold housing inventory index was 10.5 months at the end of the third quarter, down 12.9 percent from second quarter's 9.3 month supply of unsold homes. In other words, at the current pace of sales it would take approximately ten months to sell all single family residential homes available to be purchased. In markets with more than a ten months supply of residences for sale price softness should be expected.

The affordability index for the quarter is 110, that is the median income family has 110 percent of the income necessary to qualify for a 30 year, 80 percent loan to value ratio, conventional mortgage loan. Lower interest rates throughout the year has increased the housing affordability index from 98 during the first quarter of this year.

Southeastern Region

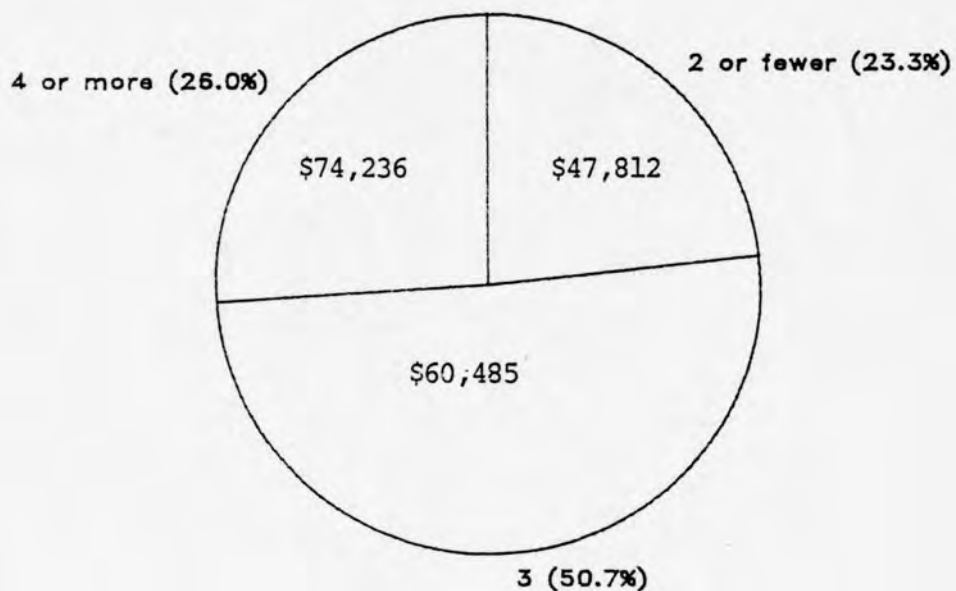
Median Sale Price Trend*



*Based on Rochester MLS data only

Median Price by Home Size (# bedrooms)

Rochester, Mankato & Albert Lea



Region 5 - Central

This region, after January 1, will present combined data from Stearns, Benton, Sherburne and Wright Counties with real estate activity for Todd, Douglas and Pope Counties. For the balance of 1985 each area is presented independently.

In Stearns, Benton, Sherburne and Wright Counties, data is available bi-monthly and should be compared with other regions in the 2nd quarter and year end reports.

The median price for units reported sold during July/August was \$55,656, down 4.1 percent from May/June and down 7.9 percent since the March/April period. This trend is being carefully watched and may be indicative of generally declining prices in the face of a relatively large supply of property for sale.

The number of units sold during July/August declined 14.3 percent since May/June. Based upon the average number of units reported sold in the two month period the unsold housing inventory index increased to 12.6 months, up from 10.8 months in the prior period. The weighted average time on market, however, declined from 131 to 108 days.

Conventional mortgage loans (27.8%) and contracts for deed (18.8%) continue to be the predominant means of financing a home purchase. FHA insured mortgage loans nearly doubled their market share, increasing from 9.5 to 18.1% of financing. Assumptions and cash purchases were 14.6 and 7.6 percent of total financing during the July/August period.

Housing affordability in the four county area during July/August was 111.6, up from 99.4 in the prior two month period.

The following data applies to Todd, Douglas and Pope Counties. As a new participating area this is the first report of quarter to quarter data and changes in activity.

Median prices of residential property sold increased in the third quarter, up 3.2% to \$52,701 from \$51,054 in the second quarter of this year. Third quarter median prices for 2, 3 and 4 bedroom homes were \$38,526, 52,164 and \$74,335 respectively.

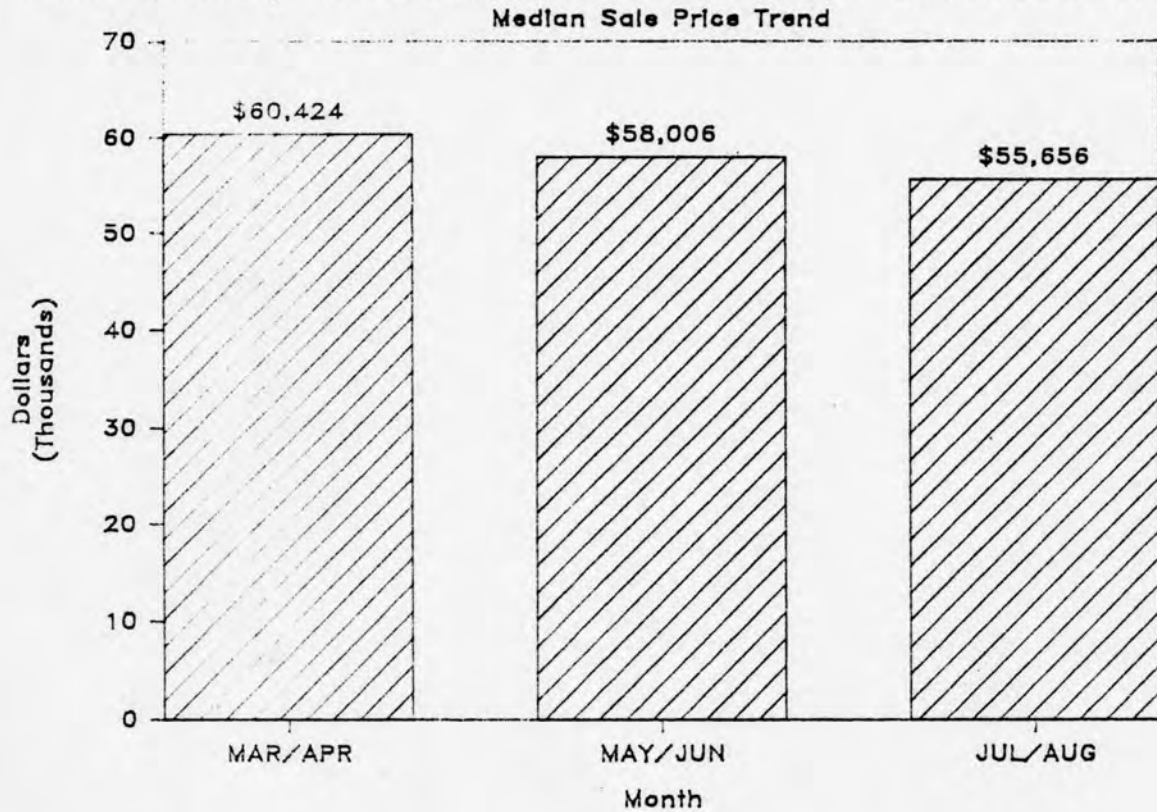
Time on market to sell was 158 days compared to second quarter's 148 days and first quarter's 190 days. Based upon average sales during each quarter, the unsold housing inventory index was 28.1 months at the end of the first quarter, 22.1 months at the end of the second quarter and 21.6 months at the end of the third quarter.

Contracts-for-deed (38.8%), cash purchases (20.9%) and conventional mortgage loans (26.9%) are the predominant financial means of acquiring residential property in the county area during the third quarter.

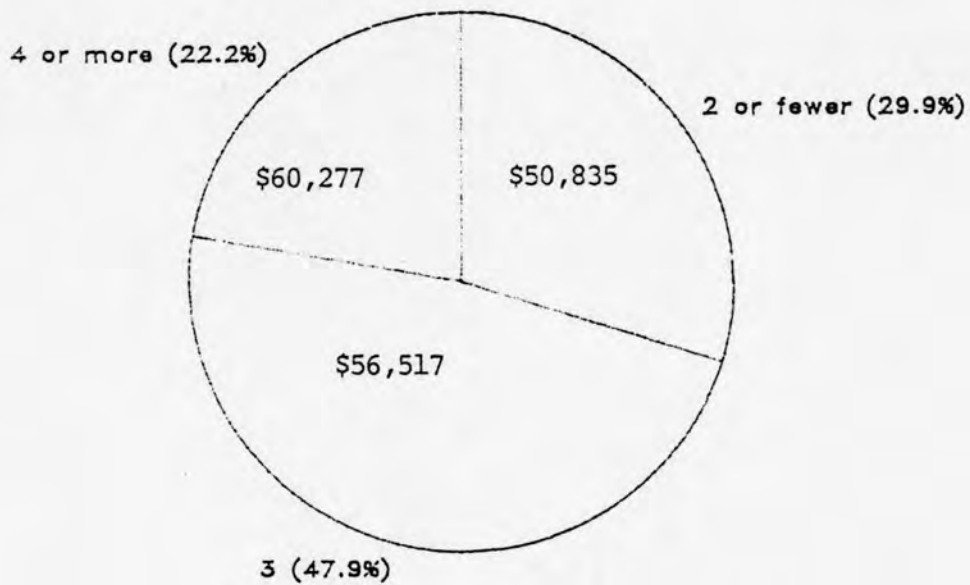
The affordability index for the first three quarters of 1985 was 78.7, 76.8 and 84.9 percent of the income necessary to buy the median price home. Two factors, together or individually bias the index downward.

First, substantial purchases of expensive recreational/residential property are made by families from outside the region. The other alternative explanation is that low agricultural/rural income give the index a bias which indicates that property is generally unaffordable. The affordability problem is not as serious as indicated. Fully 33 percent of the housing sold during the third quarter, sold for less than \$40,000. To afford housing which costs \$40,000 with no down payment, the maximum required income is \$19,381.

STEARNS, WRIGHT, BENTON, & SHERBURNE



Median Price by Home Size (# bedrooms)



TODD, DOUGLAS & POPE COUNTIES

Median Price by Home Size (# bedrooms)

